

Message Text

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ACTION ARA-14

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E.O. 11652: NA
TAGS: EFIN, JM
SUBJECT: PRELIMINARY DATA ON 1977 BALANCE OF PAYMENTS; AND BOJ
UNOFFICIAL COMMENTS ON IMF NEGOTIATIONS

1. THE BANK OF JAMAICA (BOJ) IS CURRENTLY IN THE PROCESS OF
DEVELOPING PRELIMINARY BALANCE OF PAYMENTS DATA FOR 1977.
THE LATEST CENTRAL BANK ESTIMATES, ALONG WITH THE BANK'S EARLIER
PROJECTIONS AND ACTUAL FIGURES FOR 1976, ARE PRESENTED IN THE
TABLE BELOW. ALL FIGURES ARE IN MILLIONS OF JAMAICAN DOLLARS
AT THE BASIC RATE OF J\$1-US\$1.10. NOTE THE FOLLOWING:
A. THE DECLINE IN FOREIGN EXCHANGE RESERVES IN 1977 IS NOW
ESTIMATED AT J\$36 MILLION, COMPARED WITH A PREVIOUSLY PROJECTED
INCREASE OF J\$30 MILLION. WE ESTIMATE THE ACTUAL 1977 BALANCE
OF PAYMENTS DEFICIT AT J\$90 MILLION, FINANCED BY J\$54 MILLION IN
"SPECIAL INFLOWS" AND J\$36 MILLION IN DRAWDOWN OF FOREIGN
EXCHANGE RESERVES. STILL, 1977 PERFORMANCE IS SUBSTANTIALLY
BETTER THAN IN 1976, WHEN THE OVERALL BALANCE OF PAYMENTS
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DEFICIT WAS J\$234 MILLION.
TABLE 1

JAMAICA'S BALANCE OF PAYMENTS

(DATA AND ESTIMATES AS OF JANUARY 12
1978) IN MILLIONS OF J\$ AT BASIC RATE

OF J\$1 - US\$1.10

	1976	1977	
	ORIGINAL PROJECTION	CURRENT ESTIMATES	
MERCHANDISE	-230	-33	72
EXPORTS (F.O.B.)	600	727	742
IMPORTS (C.I.F.)	830	760	670
SERVICES (NET)	-51	-53	-56
FOREIGN TRAVEL	43	55	51
INVESTMENT INCOME	-105	-113	-98
OTHER	11	5	-9
TRANSFERS (NET)	6	16	16
PRIVATE	2	12	12
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GOVERNMENT	4	4	4
CURRENT ACCOUNT BALANCE		-275	-70 32
NET CAPITAL MOVEMENTS		41	100 -68
OFFICIAL	72	32	-15
PRIVATE	-31	-13	-107
SPECIAL INFLOWS	-	81	54
CHANGE IN RESERVES (INCREASE PLUS)		-241	30 36
ESTIMATED BALANCE OF PAYMENTS			
SURPLUS (PLUS) DEFICIT (MINUS)		-234	-51 -90

B. THE CURRENT ACCOUNT BALANCE WAS MUCH MORE FAVORABLE THAN HAD BEEN ANTICIPATED. INSTEAD OF THE PROJECTED CURRENT ACCOUNT DEFICIT OF J\$70 MILLION, THE LATEST ESTIMATES SHOWS A SURPLUS OF J\$32 MILLION. THIS IMPROVEMENT IS PARTICULARLY NOTEWORTHY WHEN CONTRASTED WITH THE CURRENT ACCOUNT

DEFICIT OF J\$275 MILLION IN 1976. NOTE THAT EXPORTS ARE SUBSTANTIALLY ABOVE THOSE OF LAST YEAR (DUE MOSTLY TO BAUXITE AND ALUMINA), WHILE IMPORTS HAVE BEEN SUBSTANTIALLY COMPRESSED (FROM J\$830 MILLION TO J\$670 MILLION, OR BY 19 PERCENT). THE IMPORT CUTBACK IN REAL TERMS IS SIGNIFICANTLY LARGER. THIS ATTESTS TO THE TIGHTNESS OF THE IMPORT LICENSING AND FOREIGN EXCHANGE CONTROL MECHANISM, WHICH RESULTED IN NEGATIVE GDP GROWTH AND IN INCREASED UNEMPLOYMENT.

C. IT IS IN THE CAPITAL ACCOUNT THAT THE BALANCE OF PAYMENTS SHOWS PARTICULARLY DISCOURAGING RESULTS. THE OFFICIAL NET CAPITAL FLOW TURNED OUT TO BE A MINUS J\$15 MILLION INSTEAD OF THE PLUS J\$72 MILLION EXPERIENCED IN 1976. MORE IMPORTANTLY, THE TOTAL NET PRIVATE CAPITAL OUTFLOW WAS J\$107 MILLION, OVER THREE TIMES THE OUTFLOW OF 1976. ADMITTEDLY, THIS LATTER ITEM LIMITED OFFICIAL USE

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INCLUDES ERRORS AND OMISSIONS, WAS CALCULATED AS A RESIDUAL AND MIGHT WELL BE REDUCED AFTER BETTER DATA BECOME AVAILABLE. NONETHELESS, THERE IS NO DOUBT THAT THE PRIVATE CAPITAL OUTFLOW WAS SUBSTANTIALLY ABOVE THE 1976 LEVEL.

2. IN CONVERSATIONS WITH ECONOMISTS AT THE BANK OF JAMAICA, EMBASSY ECONOMIC OFFICER DID NOT FIND ANY MAJOR CONFLICT WITH IMF POSITION. DISAGREEMENTS ARE AT THE POLITICAL RATHER THAN AT THE TECHNICAL LEVEL. TECHNICIANS ARE WELL AWARE OF THE FACT THAT JAMAICA HAS BEEN LIVING BEYOND ITS MEANS AND THAT RELIANCE ON IMPORT LICENSING AND EXCHANGE CONTROLS PROVIDE NO PERMANENT SOLUTION. WHILE THEY FEEL THAT CONTROLS CANNOT BE REMOVED IN THE ABSENCE OF A RESERVE CUSHION (WHICH DOES NOT EXIST AT PRESENT), THERE IS RECOGNITION THAT MAJOR RELIANCE MUST BE PLACED ON PRUDENT MONETARY-FISCAL MANAGEMENT, ADJUSTMENT OF THE EXCHANGE RATE AND RESTRUCTURING OF THE ECONOMY. THERE IS ALSO RECOGNITION THAT THE COUNTRY NEEDS ALL THE FOREIGN EXCHANGE RESOURCES IT CAN GET, AND THAT IT CANNOT AFFORD TO IGNORE THE IMF'S DEMANDS.

3. CREDITS UNDER THE IMF EXTENDED FUND FACILITY (EFF) ARE BELIEVED TO BE MORE RESPONSIVE TO JAMAICA'S NEEDS THAN THE STANDARD STANDBY AGREEMENT. WHILE THE EFF WOULD ALSO SET TARGETS ON ASSETS OF THE BANK OF JAMAICA, CREDIT TO THE PUBLIC SECTOR, CHANGE IN NET FOREIGN EXCHANGE RESERVES, JUST AS THE STANDBY, IT IS BELIEVED TO BE A MORE FLEXIBLE TOOL IN VIEW OF ITS FOCUS ON LONG-TERM OBJECTIVES, INCLUDING THE RESTRUCTURING OF THE ECONOMY.

4. BOJ OFFICIALS INDICATED THAT THE GOVERNMENT RECOGNIZES THAT GREATER ATTENTION MUST BE PAID TO ENCOURAGING PRIVATE INVESTMENT THOUGH NO CONCRETE STEPS HAVE BEEN TAKEN TO DATE TO IMPROVE THE INVESTMENT CLIMATE. THEY NOTED THAT MAJOR DISCOURAGING ELEMENTS THAT MUST BE ADDRESSED INCLUDE FEARS OF A COMMUNIST TAKEOVER, EXPROPRIATION AND CRIME, FURTHER DEVALUATIONS, AND THE RESTRICTIVE LICENSING AND LIMITED OFFICIAL USE

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EXCHANGE CONTROL APPARATUS.
IRVING

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Message Attributes

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